How to implement a quarterly rolling forecasting on a planning tool - the lessons to learn

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By David Parmenter (davidparmenter.com)

David Parmenter states "Many have had to rebuild the planning model within 18 months of its commissioning, as a better understanding of the planning tool and its capabilities comes to light".

In my article " Demolishing barriers to success" (March 2005) I said that quarterly rolling planning (QRP) is the most important management tool of this decade. I explained how quarterly rolling forecasting and planning fit together and the features of a QRP process. This article will look the lessons learnt from implementing planning applications that will perform the forecasting and planning activities.

When you look at the modern planning applications you need to recognise that most if not all the designers have never been in the middle of a massive, dysfunctional annual planning process, as the reporting accountant or as a Budget Holder. They are often what I call "rocket scientists", based in the development centres of the companies. If these designers had more on the ground experience they would have designed the models differently! Instead of building a better annual planning application (which quite frankly, anything can be better if you use EXCEL) they would have built a **rolling** forecasting and planning application.

This means that when we finally bite the bullet and decide to throw away the Excel model in which we have invested so much blood sweat and tears, we are embarking on a perilous journey. Being led by many who themselves have still not gained enough knowledge or experience of living in a beyond budgeting world, as quite frankly very few of us have.

This article looks at the lessons that have been gleaned to date from the pioneers in this field.

Lesson 1: Start with a clean sheet of paper

It is important to avoid basing the planning tool on your existing excel forecasting models. It is a common fault, one borne out of ignorance and a lack of understanding of the potential of planning tools. In other words the structure should suit the model, not previous planning tool capabilities

One of the first steps is to interview the senior management team (SMT) to scope the key drivers and second-guess the likely questions they will want answered in the future. This can be done by brainstorming with SMT what they think likely future scenarios are, and then accommodate key drivers in the model design.

Lesson 2: Begin with SMT and the finance team commitment and education

The SMT has to be committed to the rolling forecast methodology and understand why the new regime needs to be a Budget holder upwards process, using an appropriate planning tool. One of the key contributions that the SMT make is to help the project team understand the key drivers of the business. These drivers will tie back to strategic decisions that the SMT may need to make in the future e.g. whether to stop production of a particular product line etc. It is also important that the SMT understand the impact that quarterly rolling forecasts should have on the planning process, making it easier, quicker and more realistic.

As a minimum I suggest a half-day workshop, where the entire executive team meets to receive presentations by experts, organisations with rolling forecasts, and an in-house team who are the recognised candidates to lead such a project. After this meeting the SMT will be in a position to either commit to it, or put it back simmering on the company's "aga".

By commitment I mean the SMT will need to set aside time to give feedback on suggested drivers, visit other quarterly rolling forecasting sites, and approve the investment proposal to acquire the chosen planning software, all in a tight time frame.

It is also important to get all the management and financial accountants on board. Often a fast light touch is impossible if you have not changed the ingrained "must look at the detail" mentality of some accountants.

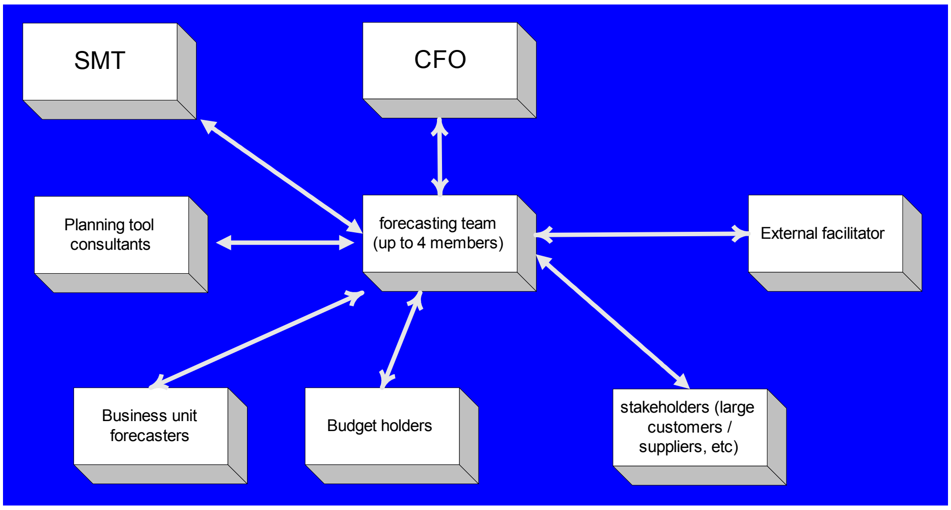
Lesson 3: Progress through stealth

The quarterly rolling forecast is a vital building block to replacing the budget process in your organisation. However to implement this change "progress by stealth" may be the best way forward unless the CEO is leading the beyond budgeting charge.

What I mean by this is that you first justify purchasing the planning tool for better forecasting and month end reporting. Then, when the forecasting system is running well you start implementing some of the beyond budgeting techniques such a quarterly rolling funding. At a latter stage management may want to remove the annual goal posts completely.

Lesson 4: Select a small team

It is important to select a small team to work on this project. The project team will be supported by project co-ordinators at the different business units (see diagram below). These co-ordinators need to be knowledgeable about their business units operation and be available to provide knowledge and to give feedback. about their area to the project team members



I recommend a team of between two to four staff for the rolling forecast team. It is important that you ensure the team has the appropriate mix of skills including: are self starters; innovative; good at presenting; finishers; in-depth organisational and sector knowledgeable; experience with using the general ledger; advanced communication skills and the ability to bring others onboard. It is unlikely that you would get full skill fit with just two staff.

The project team members will need to be committed at least half time on this project. The team will need one member who is an "oracle" on the business. It is also best to ensure that the team is free of a well-meaning SMT member who whilst enthusiastic will be forever cancelling meetings. The SMT involvement should be left to an advisory capacity.

Lesson 5: Don't get too flash - avoid the rocket scientist

Many of the extreme examples of excel models have been designed by accountants and planners who always wanted to be a rocket scientist. They create monster models which only they could possibly understand, ending up with a living nightmare, which may include any of the following: days/weeks/months of work on the model each time it is used; poor version control; consolidation headaches; low level confidence in the resulting numbers; and emails and phone calls to the model builder who may well have left the company, need I go on!

The model planning tools are relatively simple to use to build a planning tool, and the in-house staff need to attend in-depth training, so they can be fully aware of the capabilities and have test driven it. In other words it's just like driving a car, the team will need a series of lessons and hopefully practice it on "quiet country roads", before they let rip into the main model.

The project team should avoid a rocket scientist in both the team itself and in the consultant who is advising them.

Lesson 6: Find yourself an external facilitator

The project team will need a facilitator who will act as a mentor ensuring that they maintain a "helicopter view" of the project; avoide getting lost in detail; do not design a rolling forecast system based around the previous dysfunctional excel model; and being a safety net in case the software provider's consultants start leading the project team "up the garden path".

The facilitator's role on a project such as this should be somewhere between 10-15 working days. In other words they should not become part of the project team.

The external facilitator will be providing some wise council, which the SMT could give if they are experts in rolling forecast methodology.

Lesson 7: Selling the concept and the necessity for PR

The project team needs to focus on the marketing of this new concept as much as it does on the training. Budget holders will need to understand how this process is going to help them manage their business. Providing success stories throughout the implementation is a must.

Many initiatives driven from the finance team fail at this hurdle because we attempt to change the culture through email!! It does not work. This project needs a PR machine behind it. No presentation, email, memo, paper should go out unless it has been vetted by your PR expect. You could contract this in for less than $8,000 for the whole project. You will never regret it.

Lesson 8: Design the model yourself - do not let a third party do it for you

The project team must always design the model themselves. You need to use the planning tool consultants more as advisors and trainers and make sure you drive the mouse. Not only will the project cost infinitely more money, you have the added risk of bringing someone who may not fully understand your business, and who invariably will end up being pushed into a dark room and be fed the proverbial, in other words treated like a mushroom.

Lesson 9: Applying Paretos 80/20 - the fast light touch

We forget this rule at our peril in all of the services the finance team delivers. In forecasting Pareto's 80/20 rule is paramount. We need to spend the time forecasting the major categories and short-circuiting those categories that can be automated. Budget holders should not be forecasting product line by product lines, account code by account code. This detail whilst appearing to give accuracy in fact clouds the issue and conceals the many logic errors that lie in an in-depth forecast.

Rules I have developed:

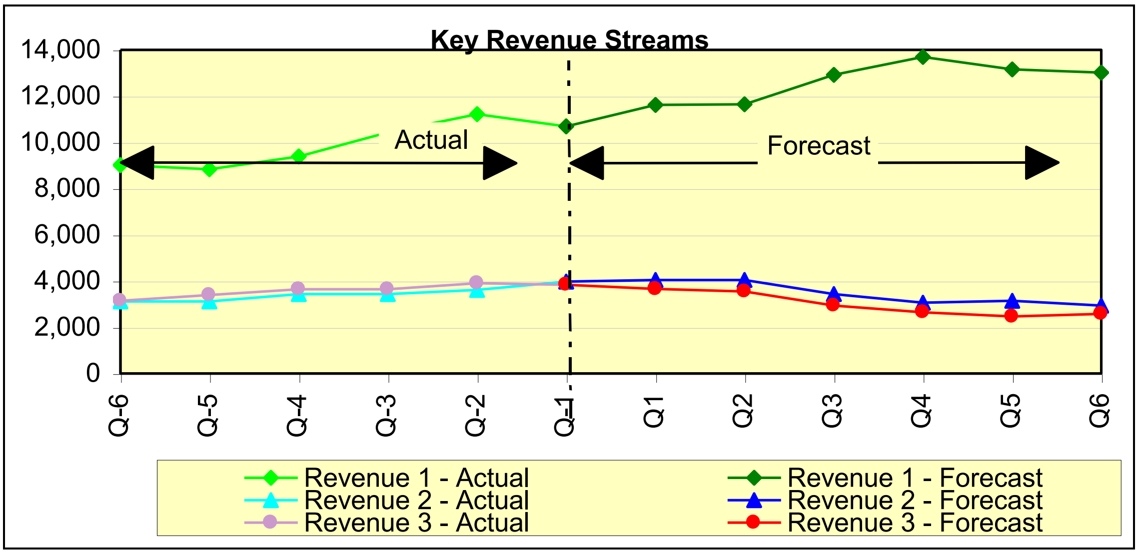
- limit the categories that BH's need to forecast to no more than twelve
- select the categories that can be automated, and provide these numbers
- separate out a forecasting line if the category is over 20% of total e.g. show revenue line if revenue category is over 20% of total revenue. If category is between 15-20% look at it and make an assessment. Remember a category will have a number of account codes within it. This rule applies at budget holder and consolidated forecasting levels.
- allow the budget holders to have some flexibility in the categories to best reflect their operation. Planning tool can easily cope with this complexity by the mapping of G/L codes to categories – try doing this in an Excel spreadsheet! If you can you should work for NASA.
- accurate forecasting of personnel costs requires analysis of all current staff (their end date if known, their salary, the likely salary review and or bonus), all new staff (their starting salary, their likely start date)

In one workshop I ran for a service sector organisation the group came up with the decision that there would be a maximum of **fifteen categories** of which seven would be automated.

BH's forecast only these categories	The categories that can be automated
revenue (3 to 4 categories)	operational equipment R&M
salaries & wages ordinary time	office equipment, computer & consumables
other personnel expenditure	communications costs
health & welfare	fleet costs
training & conferences including travel	building maintenance
operational equipment – that is not capitalised	miscellaneous costs
property costs	depreciation
promotional activities	

Lesson 10: Have trend graphs for every category forecasted

Better quality can be achieved through analysis of the trends. There is no place to hide funding when a BH is accountable for the past and future trends. This graph, if available for all categories BH's are required to forecast, will increase accuracy.



Lesson ensure you have at least 4 experts on the new system in-house

Select at least four to five in-house staff to become experts on the forecasting system (do not forget the CFO) and ensure they are in the focus group. Over time you will find these staff will be head hunted so always maintain this level of in-house competence.

Writer's biography

David Parmenter is the CEO of waymark solutions. David specialises in assisting organisations measure, report and improve performance. waymark helps organisations streamline their: month-end reporting and annual planning processes, implement quarterly rolling forecasts, adopt the principles of beyond budgeting, develop decision based reports, and adopt performance measures that will improve performance. He has had speaking engagements in 2007 in Wellington, Auckland, Christchurch, Sydney, Melbourne, Brisbane, Canberra, Adelaide, Perth, Kuala Lumpur, Singapore, Dublin, Edinburgh, Glasgow and London.

John Wiley & Sons Inc are publishing two of his books in 2007 "Key performance indicators – developing, implementing and using winning KPIs" (January 07) and "Pareto's 80/20 Rule for the Corporate Accountant" – better practices from winning finance teams (April 07).

David has an in-depth understanding of better practices of corporate accountants across all sectors. David has also worked for Ernst & Young, BP Oil Ltd, Arthur

Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants of England and Wales.

He has written over 30 articles for the accounting and management Journals in Australia, Malaysia, Ireland, England and New Zealand. His articles published include: “quarterly rolling planning - removing the barriers to success”, “Throw away the annual budget”, “Maybe its time to look at your KPIs”, “seven time wasters”, and “quick month end reporting”, “Beware corporate mergers”, “Implementing a Balanced Scorecard in 16 weeks not 16 months”, “Convert your monthly reporting to a management tool”, “Smash through the performance barrier”, “Is your board reporting process out of control?”
He can be contacted at parmenter@waymark.co.nz or telephone +64 4 499 0007
He has recently completed a series of white papers which can be purchased from his website http://www.waymark.co.nz.His recent thinking is accessible from www.DavidParmenter.Com